Canadian Q1 GDP increased 0.4% but details stronger

Latest available: March
Release date: May 31, 2019

Canadian GDP increased 0.4% in Q1, essentially matching a 0.3% increase in Q4. Details were firmer and a 0.5% surge in March GDP bodes well for a return to stronger growth rates in Q2. Much of the softness in Q1 can still be traced to disruptions to oil & gas activity in the wake of lower prices last year and mandated production cuts in Alberta. Excluding the oil & gas sector, output rose by ~1½% in Q1 and that was despite a big weather-related dip in output in February. And the composition of Q1 GDP growth on an expenditure basis was generally better than feared.

A 3.5% jump in Q1 consumer spending is tough to square with earlier-released soft retail spending numbers but household disposable income also posted a decent 3.5% (nominal) increase after an upwardly revised Q4 gain. A significant chunk of a 13.5% jump in business investment reflected lumpy increases in aircraft purchases flagged earlier in the international imports data but Statistics Canada noted that spending rose in 8 of 9 sub-categories of equipment investment. Net trade was, as expected, the main drag on growth in Q1 with lower oil production weighing on exports.

Overview and highlights

▲ Canadian GDP increased 0.4% in Q1, essentially matching a 0.3% increase in Q4

▲ Employment increased another 28k in May, building on the outsized 107k increase in April. The unemployment rate fell to 5.4%

▲ Retail sales rose 1.1% in March, boosted by a price-led 6% increase in sales at gasoline stations

▲ Canadian housing starts fell to 202k annualized units in May from 233k in April

▲ The trade balance narrowed to $1.0 billion in April. Nominal exports increased 1.3% and imports fell 1.4%

▲ Headline inflation bounced back to nearly 2% in March after starting the year closer to 1.5%.

Economy at a glance

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<th>Latest month</th>
<th>% change from</th>
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<tr>
<td></td>
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<td>Previous month</td>
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<tr>
<td>Real GDP</td>
<td>Mar</td>
<td>0.5</td>
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<td>Industrial production</td>
<td>Mar</td>
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<td>Employment</td>
<td>May</td>
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<td>Unemployment rate*</td>
<td>May</td>
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<td>Manufacturing</td>
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<td>Mar</td>
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<tr>
<td>Retail sales</td>
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<td>Car sales</td>
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<tr>
<td>Housing starts (000s)*</td>
<td>May</td>
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<td>Exports</td>
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<tr>
<td>Imports</td>
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<td>Trade balance ($billions)*</td>
<td>Apr</td>
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<tr>
<td>Consumer prices</td>
<td>Apr</td>
<td>0.4</td>
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* Levels are shown for the latest period and the same period a year earlier.
Risks around trade outlook remain, but Canadian labour markets still look solid

Latest available: May
Release date: June 7, 2019

Employment increased another 28k in May, building on the outsized 107k increase in April. The unemployment rate fell to 5.4% – the lowest for comparable data back to 1976. Wage growth remains soft given the low unemployment rate, but ticked up to 2.8% in May from 2.5% in April. The gain in employment was the 8th in 9 months for what is normally a very volatile measure – with gains over the period totaling 417k.

Canada retail sales rise again in March

Latest available: March
Release date: May 22, 2019

Headline sales jumped 1.1% to build on a 1.0% increase in February, although the March gain was boosted by a price-led 6% increase in sales at gasoline stations. Controlling for price-effects, sale volumes edged up 0.3% after a 0.4% increase in February but were still down slightly on average from Q1. Bucking a flattish trend for sales overall, sale volumes at both furniture and building material sales bounced back solidly in the first quarter after declining over the second half of last year. That probably is related to some of the more recent stabilization in home resales. Nonetheless, housing markets are still softer than in earlier years, and that means earlier boosts to broader purchasing power from increases in real-estate equity are not being repeated.

Canadian housing starts trend easing toward the 200k mark

Latest available: May
Release date: June 10, 2019

Canadian housing starts were close to expectations, falling to 202k annualized units in May from 233k in April. The six-month trend was also 202k, which is the slowest pace in more than two years. May’s pullback was concentrated in multi-unit starts though the trend in that component remains solid. Starts fell sharply in Ontario to retrace a significant increase in the previous month. A separate report saw building permits jump to their highest level since 2005, largely due to a surge in BC ahead of an increase in development costs in Vancouver.
Rising exports, falling imports shrank Canada’s trade deficit in April

Latest available: April  
Release date: June 6, 2019

Export volumes jumped 1.1%, but a big chunk of that came from the a 15% surge in exports of metal and non-metallic mineral products. That reflected higher gold exports, an often-volatile component, that is not likely to be repeated going forward. A big 2.1% drop in import volumes helped make the net trade balance look better in April – and we continue to expect net trade will retrace about half of the large 4 percentage point drag on overall Q1 GDP growth in Q2. But lower imports of electrical equipment and the continued retracement of a huge surge in aircraft imports in January also suggests that business investment spending in Q2 will retrace a big chunk of the 40% Q1 gain. The trade balance narrowed to $1.0 billion in April. Nominal exports increased 1.3% and imports fell 1.4%.

Stable inflation is good news for Canadian consumers

Latest available: April  
Release date: May 16, 2019

Headline inflation ticked up to 2.0% year-over-year in April from 1.9% in March. Core inflation remained steady at 2%, giving the Bank of Canada plenty of leeway to hold interest rates steady (and watch other developments, like rising global trade tensions). For households, that means less of an increase in debt service costs than was seen last year. And while wage growth has been disappointingly slow, hourly pay is still outpacing overall inflation, giving consumers at least some increase in purchasing power. Finally, while imposition of the federal carbon pricing backstop in some provinces added to rising energy costs in April, the average household gets that money back when they file their taxes.